

Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 01074 01 OF 02 241534Z

44

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 EA-11 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 COME-00 OMB-01 TRSE-00 SAJ-01 CIEP-02

CEA-02 OPIC-12 TAR-02 CAB-09 DOTE-00 DRC-01 /155 W

----- 075761

R 241523Z JAN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7359

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 01074

E.O. 11652: N/A

TAGS: ETRN, UK

SUBJ: ROLLS-ROYCE WORRIED BY LOCKHEED FINANCIAL PROBLEMS

REF: LONDON A-1159, SEPTEMBER 17, 1973

1. SUMMARY. BRITISH ARE BECOMING INCREASINGLY CONCERNED ABOUT FINANCIAL DIFFICULTIES BESETTING LOCKHEED'S TRI-STAR PROGRAM AND IMPLICATIONS THOSE DIFFICULTIES MAY HAVE FOR FUTURE OF ROLLS-ROYCE WHICH SUPPLIES RB-211 ENGINES FOR PROGRAM. ALTHOUGH RECENT PUBLIC RELATIONS EFFORT BY LOCKHEED CHAIRMAN AND JOINT LOCKHEED/ROLLS-ROYCE SALES MISSION TO USSR HAVE PROVIDED SOME REASSURANCE, UKG REMAINS SUFFICIENTLY CONCERNED TO HAVE SENT TEAM TO VISIT LOCKHEED AND CONFER WITH ITS BANKERS. RB-211 PRODUCTION GENERATES ABOUT 20 PERCENT OF ROLLS-ROYCE REVENUES AND APPEARS TO BE VITAL TO FUTURE OF COMPANY. END SUMMARY.

2. WITH FUTURE OF ROLLS-ROYCE (1971) HEAVILY MORTGAGED TO SUCCESS OF LOCKHEED TRISTAR SALES PROGRAM, BRITISH PRESS IN RECENT DAYS HAS GIVEN PROMINENT COVERAGE TO LOCKHEED FINANCIAL DIFFICULTIES EMANATING FROM RECENT AIRLINE DECISIONS TO DELAY DELIVERY ON TRISTARS ORIGINAL-

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 01074 01 OF 02 241534Z

LY PROGRAMMED FOR PRODUCTION IN 1974/75. LOCKHEED'S CASH

FLOW PROBLEMS, NEAR TOTAL DRAW-DOWN OF USG-GUARANTEED EMERGENCY LOAN, EMPLOYEE LAYOFFS, AND COMPANY'S APPOINTMENT OF LAZARD FRERES AND CO. TO EXPLORE MERGER POSSIBILITIES WITH OTHER COMPANIES HAS GIVEN RISE TO SERIOUS CONCERN AMONG BRITISH STILL EDGY FROM DRAMATIC FINANCIAL COLLAPSE OF ROLLS-ROYCE AND SUBSEQUENT GOVERNMENT-MOUNTED RESCUE OPERATION IN 1971. COMMENTING ON LOCKHEED PROBLEMS, OBSERVER REPORTER, CHARLES FOLEY, RECENTLY EXPRESSED FEARS OF MANY WHEN HE GLOOMILY CONCLUDED THAT "...WITHOUT SOME KIND OF MIRACLE, THE TRISTAR WILL BE ON ITS WAY TO HISTORY'S SCRAP-HEAP IN 1974."

3. VISIT TO LONDON OVER WEEKEND OF JANUARY 18 BY LOCKHEED CHAIRMAN, DAN HAUGHTON, HELPED TO ALLAY PARTIALLY BRITISH CONCERNS OVER TRISTAR. HAUGHTON TOLD NEWSMEN THAT ALTHOUGH PLANS FOR "DASH 2" LONGER RANGE VERSION OF TRISTAR HAVE BEEN TEMPORARILY SHELVED, COMPANY EXPECTS TO BE ABLE MODIFY EXISTING VERSION SUFFICIENTLY TO ENABLE IT OPERATE TRANS-ATLANTIC. HE SAID TRISTAR PRODUCTION WILL CONTINUE AT RATE OF THREE AIRCRAFT PER MONTH FOR NEXT TWO OR THREE YEARS AND THAT BANKS ARE TAKING "VERY CONSTRUCTIVE ATTITUDE" TOWARD LOCKHEED FINANCIAL SITUATION. HAUGHTON INDICATED LOCKHEED HOPED TO BE ABLE TO CARRY ON WITHOUT ANY MERGER AND HE SAID THERE IS NO INTENTION TO SELL OFF ANY PART OF THE COMPANY. IF MERGER DOES TAKE PLACE, HE INDICATED IT WOULD HAVE TO BE ON "ALL OR NOTHING" BASIS WHICH PRESUMABLY WOULD MEAN THAT TRISTAR PRODUCTION WOULD CONTINUE. HAUGHTON DID NOT IDENTIFY ANY PROSPECTIVE MERGER PARTNERS, BUT MENTION HAS BEEN MADE OF HOWARD HUGHES-OWNED SUMMA CORPORATION (REFAIR) AND ITT AS WELL AS BOEING, MCDONNELL DOUGLAS, AND ROCKWELL INTERNATIONAL AS POSSIBILITIES.

4. BRITISH ALSO SOMEWHAT ENCOURAGED BY ANNOUNCEMENT OF HIGH-POWERED SALES MISSION TO USSR ORGANIZED JOINTLY BY LOCKHEED AND ROLLS-ROYCE (RR) TO ATTEMPT TO SELL TRISTAR, AVIONICS, AND RB-211 JET ENGINE TO SOVIETS. SALES TEAM IS BEING LED BY HAUGHTON AND BY KENNETH WILKINSON, RR MANAGING DIRECTOR. SOVIETS REPORTEDLY HAVE ALREADY SHOWN INTEREST IN RB-211, DEVELOPED BY RR TO POWER TRILIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 01074 01 OF 02 241534Z

STAR, AND HAVE SENT ENGINEERS TO VISIT RR'S DERBY PLANT WHERE RB-211 IS IN PRODUCTION. ACCORDING RR, SOVIETS INTERESTED IN INDUSTRIAL AND MARINE APPLICATIONS OF RB-211 AS WELL AS ITS AVIATION USE. THERE IS ALSO SPECULATION THAT RR MAY USE LOCKHEED/RR SALES MISSION AS OCCASION TO ATTEMPT INTEREST SOVIETS IN SPEY ENGINE, LICENSING RIGHTS FOR WHICH RR HAS BEEN TRYING TO SELL TO PRC.

5. DESPITE HAUGHTON'S PUBLIC RELATIONS WORK AND JOINT SALES EFFORT IN USSR, HOWEVER, BRITISH REMAIN SERIOUSLY CONCERNED ABOUT IMPLICATIONS FOR RR OF LOCKHEED'S TROUBLED TRISTAR PROGRAM. WE UNDERSTAND UKG HAS SENT

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 01074 02 OF 02 250919Z

14

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 EA-11 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 COME-00 OMB-01 TRSE-00 SAJ-01 CIEP-02

CEA-02 OPIC-12 TAR-02 CAB-09 DOTE-00 DRC-01 /155 W

----- 084532

R 241523Z JAN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7360

LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 01074

TEAM, WHICH REPORTEDLY INCLUDES ACCOUNTANTS, TO LOCKHEED'S BURBANK HEADQUARTERS FOR A CLOSER LOOK AT SITUATION AND PROSPECTS. WHILE IN U.S., TEAM WILL ALSO MEET WITH COMPANY'S BANKERS, INCLUDING LAZARD FRERES.

6. COLLAPSE OF TRISTAR PROGRAM WOULD BE DISASTROUS FOR RR. RB-211 PRODUCTION IS CURRENTLY AT RATE OF ABOUT THREE ENGINES, WORTH ABOUT ONE MILLION POUNDS A WEEK. THIS ENGINE ALONE ACCOUNTS FOR ABOUT 20 PERCENT OF RR'S TURNOVER. OTHER MAJOR JET ENGINE PROJECTS INCLUDE OLYMPUS FOR CONCORDE, PEGASUS FOR HARRIER, ADOUR FOR JAGUAR, SPEY FOR F-4S AND THE DART AS WELL AS SPEY FOR BAC-111, TRIDENT AND FOKKER F-27 AIRLINERS. ALTHOUGH THESE PROJECTS ARE IMPORTANT, RB-211 PRODUCTION FOR TRISTAR IS KEY TO FINANCIAL WELL-BEING OF COMPANY AND IT TOGETHER WITH UP-RATED "DASH 22" AND "DASH 524" VER-

SIONS OF SAME ENGINE REPRESENT RR'S PRINCIPAL HOPE FOR
REMAINING IN BIG ENGINE COMPETITION IN THE FUTURE.

7. RR HAS BEEN EXPLORING NEW APPLICATIONS FOR RB-211.
THERE ARE, FOR EXAMPLE, INCREASING PROSPECTS THAT AT
LEAST THE BRITISH AIRWAYS FLEET OF 747 MAY BE REEQUIPPED
WITH THE MORE POWERFUL DASH-22 ENGINE. IT COULD ALSO BE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 01074 02 OF 02 250919Z

ADAPTED FOR USE ABOARD A-300 AIRBUS AND PRELIMINARY DIS-
CUSSIONS WITH AIRFRAME CONSORTIUM HAVE TAKEN PLACE.
RB-211 IS ALSO BEING MODIFIED TO BE USED FOR SHIPS AND
AS PUMPING UNIT FOR OIL AND GAS PIPELINES. THESE APPLICA-
TIONS, HOWEVER, ARE IN THE LONGER-TERM. FOR THE PRESENT,
THEREFORE, PROSPECTS FOR RB-211 AND FUTURE OF RR APPEAR
TO BE INEXTRICABLY TIED TO THE DESTINIES OF LOCKHEED
AND ITS TROUBLED TRISTAR PROGRAM.

ANNENBERG

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AEROSPACE INDUSTRY, AIRCRAFT, JOINT VENTURES, AIRCRAFT SALES, AIRCRAFT ENGINES
Control Number: n/a
Copy: SINGLE
Draft Date: 24 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON01074
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740119/aaaaarjs.tel
Line Count: 192
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: LONDON A-1159, SEPTEMBER 17, 1973
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 24 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24-Jul-2001 by maustmc>; APPROVED <29 MAY 2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ROLLS-ROYCE WORRIED BY LOCKHEED FINANCIAL PROBLEMS
TAGS: ETRN, UK, US, UR, LOCKHEED, ROLLS-ROYCE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005